

TWIGG & COMPANY
CHARTERED ACCOUNTANTS

J.S. TWIGG B.Comm., C.A.

L.D. SAFINUK B. Comm., C.A.

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TELEPHONE (306) 244-0808

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TORCH RIVER RESOURCES LTD.
(An exploration stage company)

Auditors' Report and Financial Statements

for the year ended October 31, 2010

TWIGG & COMPANY

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AUDITORS' REPORT

TO THE SHAREHOLDERS OF TORCH RIVER RESOURCES LTD.

We have audited the balance sheets of Torch River Resources Ltd. as at October 31, 2010 and October 31, 2009 and the statements of operations and comprehensive loss and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2010 and October 31, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

SASKATOON, SASKATCHEWAN
February 27, 2011

TWIGG & COMPANY
CHARTERED ACCOUNTANTS

TORCH RIVER RESOURCES LTD.
(An exploration stage company)
BALANCE SHEET
AS AT OCTOBER 31, 2010 AND 2009

	2010	2009
ASSETS		
Current		
Cash and equivalents	\$ 55,418	\$ 130,251
Accounts receivable	17,439	43,182
Prepaid expenses	5,983	6,977
	78,840	180,410
Restricted cash (Note 10)	46,000	46,000
Equipment (Note 3(c) & 4)	62,878	81,012
Mineral properties and rights (Note 3(b) & 5)	1,137,033	964,935
Deferred exploration costs (Note 3(b) & 5)	2,023,348	1,961,556
	\$ 3,348,099	\$ 3,233,913
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 102,066	\$ 35,381
	102,066	35,381
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	10,458,308	10,212,972
Contributed surplus (Note 3(j))	925,259	875,300
Deficit	(8,137,534)	(7,889,740)
	3,246,033	3,198,532
	\$ 3,348,099	\$ 3,233,913

Going concern (Note 1) and **Measurement uncertainty** (Note 5)

See accompanying notes

Approved by the Board:

“WILLIAM PFAFFENBERGER”

Director

“DONALD G SNYDER”

Director

TORCH RIVER RESOURCES LTD.
(An exploration stage company)
STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS AND DEFICIT
FOR THE YEARS ENDED OCTOBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Administration costs		
Amortization	\$ 18,134	\$ 19,209
Bank and loan interest	1,917	2,471
Filing fees	8,328	8,456
General meetings	9,946	11,075
Internet and website	893	641
Investor communication	15,282	101,154
Management fees	105,600	105,600
Office expense	12,314	8,337
Professional fees	36,423	58,501
Stock compensation (Note 7)	49,959	
Telecommunications		897
Transfer agent	3,920	5,077
Travel and promotion	144	6,475
Write-down of mineral property interests		4,878,314
Operating costs for the year	262,860	5,206,207
Interest and other income	(366)	(15,184)
Loss before the undernoted	262,494	5,191,023
Loss on disposal of assets		2,512
Loss before income taxes	262,494	5,193,535
Future income tax recovery (Note 3(f)(i) & 8)	(14,700)	(14,500)
Net loss and comprehensive loss for the year	247,794	5,179,035
Deficit, beginning of the year	7,889,740	2,710,705
Deficit, end of year	\$ 8,137,534	\$ 7,889,740
Loss per share - basic and diluted	\$.004	\$.10
Weighted average number of common shares outstanding - basic and diluted	58,412,657	53,921,824

TORCH RIVER RESOURCES LTD.
(An exploration stage company)
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash flows from (used in) operating activities		
Net loss for the year	\$ (247,794)	\$ (5,179,035)
Items not involving cash		
Stock based compensation	49,959	
Amortization	18,134	19,209
Future income tax recovery	(14,700)	(14,500)
Loss on disposal of assets		2,512
Write-down of mineral property interests		4,878,314
	(194,401)	(293,500)
Changes in non-cash working capital		
Accounts receivable	25,743	372,333
Prepaid expenses	994	13,041
Accounts payable	66,685	(186,407)
	(100,979)	(94,533)
Cash flows from (used in) financing activities		
Issuance of share capital	200,836	43,900
Repayment of long term debt		(24,785)
	200,836	19,115
Cash flows from (used in) investing activities		
Acquisition of mineral properties for cash	(112,898)	(101,356)
Acquisition of equipment		(11,308)
Deferred exploration expenses	(61,792)	(111,887)
Proceeds from disposal of equipment		9,000
	(174,690)	(215,551)
Decrease in cash and cash equivalents	(74,833)	(290,969)
Cash and cash equivalents, beginning of year	130,251	421,220
Cash and cash equivalents, end of year	\$ 55,418	\$ 130,251
Cash and cash equivalents comprised of:		
Cash	55,418	130,251
	55,148	130,251
Supplemental cash flow disclosure:		
Interest paid	1,917	2,471
Income taxes paid	NIL	NIL
Shares issued for acquisition of property	59,200	87,500

TORCH RIVER RESOURCES LTD.
(An exploration stage company)
Notes to the Financial Statements
Years ended October 31, 2010 and 2009

1. Going Concern

These financial statements have been prepared on a going-concern basis which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business for the foreseeable future. Accordingly, it does not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than normal course of business and at amounts which may differ from those shown in the financial statements.

The Company's ability to continue as a going concern is contingent on its ability to obtain additional equity financing. However, the current financial equity market conditions and the low price of the Company's common shares have caused the Company to balance the need for additional operating funds against the dilutive effect of issuing new common shares.

The amounts shown as mineral properties and related deferred costs represent costs net of recoveries to date, less amounts written off, and do not represent present or future values. Recoverability of the amounts shown for mineral properties is dependent upon the discovery of economically recoverable mineral reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain financing necessary to complete the exploration and development of its mineral property interests, and on future profitable production or proceeds from the disposition of the mineral property interests.

2. Nature of Operations

Torch River Resources Ltd. incorporated extra provincially in Alberta, Saskatchewan Manitoba, and British Columbia has shares listed on the TSX Venture Exchange.

Torch River Resources Ltd. is the result of an amalgamation filed March 26, 2004 effective September 4, 2003 between Torch River Mines Ltd. and Tael Capital Inc.

Tael was formed as a "Capital Pool Company" and was engaged in the business of identifying and evaluating properties or businesses with a view to completing a Qualifying Transaction. The amalgamation constitutes Tael's Qualifying Transaction for the purposes of TSXV Policy 2.4. Torch was a private company that was formed to explore and develop mineral properties in Manitoba. The amalgamation allows Torch to provide liquidity to its existing shareholders and gain access to the capital markets.

The Company is in the process of exploring its mineral properties and has not determined whether these properties contain ore reserves which are economically recoverable.

TORCH RIVER RESOURCES LTD.
(An exploration stage company)
Notes to the Financial Statements
Years ended October 31, 2010 and 2009

2. Nature of Operations - continued

Ownership in mineral interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral interests. The Company has investigated ownership of its mineral interests and, to the best of its knowledge, such ownership interests are in good standing.

To date, the company has not earned significant revenues and is considered to be in the exploration stage.

3. Significant Accounting Policies

(a) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates. See *Note 5*.

(b) Mineral Properties and Rights, and Deferred Exploration Costs

The Company follows the accepted accounting practice of capitalizing acquisition, exploration and development costs applicable to properties held. If the properties become productive the costs will be amortized over the anticipated production of the property. If the property is abandoned, the applicable costs will be written off.

Depletion of costs capitalized to properties will be recorded using the unit of production method based on estimated proven reserves as determined by independent engineers.

Management has determined each property or project to be a cost centre.

The costs capitalized represent those costs incurred to date and do not necessarily reflect present or future values.

TORCH RIVER RESOURCES LTD.
(An exploration stage company)
Notes to the Financial Statements
Years ended October 31, 2010 and 2009

3. Significant Accounting Policies – continued

(b) Mineral Properties and Rights, and Deferred Exploration Costs - continued

From time to time, the Company acquires or disposes of properties pursuant to the terms of option agreements. As options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as a resource property cost or recoveries when the payments are made or received.

Management of the Company reviews and evaluates the carrying value of each mineral property for impairment when events or changes in circumstances indicate that the carrying amounts of the related asset may not be recoverable. If the total estimated future cash flow on an undiscounted basis is less than the carrying value of the asset, an impairment loss is measured and the asset is written down to fair value which is normally based on the discounted value of future cash flows. Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses whether carrying value can be recovered by considering alternative methods of determining fair value. When it is determined that a mineral property is impaired, it is written down to its estimated fair value.

(c) Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is provided using the following basis and annual rates:

<u>Equipment</u>	<u>Basis</u>	<u>Rate</u>
Computer equipment	Declining balance	45%
Furniture, fixtures and office equipment	Declining balance	20%
Field equipment	Declining balance	20%

One half of the above rates are used in the year of acquisition.

(d) Cash Equivalents

Cash equivalents consist of highly liquid investments which are readily convertible into cash with maturities of three months or less when purchased.

TORCH RIVER RESOURCES LTD.
(An exploration stage company)
Notes to the Financial Statements
Years ended October 31, 2010 and 2009

3. Significant Accounting Policies – continued

(e) Investments and comprehensive income

Investments other than derivatives are classified as available-for-sale, and are measured at fair value, where applicable, or at an estimate of fair value. The resulting unrealized gains, net of applicable future income taxes, or losses, are included in other comprehensive income while realized gains, net of income taxes, or losses are included in the consolidated statement of operations. Unrealized gains and losses are recognized directly in other comprehensive income, except for other than temporary impairment losses, which are recognized in net earnings. Investments are reviewed on a regular basis to determine whether there has been a decline in value that is other than temporary. For the purpose of measuring any decline in value, the Company takes into account many factors related to each investment as well as all the factors that encompass, without being inclusive, a significant or prolonged decline in fair value, important financial distress of the issuer, a breach of contract, and increasing risk of issuer's bankruptcy, and disappearance of an active market for the financial asset concerned. If it is determined that the security is not impaired, an other-than-temporary impairment shall be considered to have occurred. If the decline in fair value is judged to be other than temporary, the cost basis of the individual security will be written down to fair value as a new cost basis and the amount of the write-down shall be included in earnings.

(f) Income Taxes

Income taxes are accounted for using the asset and liability method. Future taxes are recognized for the tax consequences of "temporary differences" by applying enacted or substantively enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and tax basis of existing assets and liabilities. The effect on deferred taxes for a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. Future tax benefits are recognized to the extent that realization of such benefits are more likely than not.

(g) Stock Option Plan

The Company has a stock option plan that is described in *Note 7*.

For stock option awards granted and all direct awards of stock, the Company applies the fair value method. The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for: weighted average risk-free interest rates; dividend yields; weighted-average volatility factors of the expected market price of the Company's Common Shares; and a weighted average expected life of the options. The fair value of direct awards of stocks is determined by the quoted market price of the Company's stock.

TORCH RIVER RESOURCES LTD.
(An exploration stage company)
Notes to the Financial Statements
Years ended October 31, 2010 and 2009

3. Significant Accounting Policies – continued

(h) Basic and Diluted Loss Per Share

Basic earnings per share are computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the potential dilution that could occur if potentially dilutive securities were exercised or converted to common shares. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the “if converted” method. Fully diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

(i) Share Capital – Flow Through Shares

The Company finances a portion of its exploration activities through the issue of flow-through shares.

The Company provides certain share subscribers with a flow-through component for tax incentives available on qualifying Canadian exploration expenditures. The Company renounces the qualifying expenditures upon issuance of the respective flow-through common shares and accordingly is not entitled to the related taxable income deductions for such expenditures.

The shares issued require that the Company make certain qualifying expenditures for tax purposes on or before December 31, 2010, the deduction of which flow through to the shareholders.

The Company adopted, on a prospective basis, recommendations by the Emerging Issues Committee (“EIC”) of the CICA relating to the recording of flow-through shares. EIC 146 stipulates that future income tax liabilities resulting from the renunciation of qualified mineral expenditures by the Company from the issuance of flow-through shares are recorded as a reduction in share capital. Any corresponding realization of future income tax benefits resulting in the utilization of prior year losses available to the Company not previously recorded, whereby the Company did not previously meet the criteria for recognition, are reflected as part of the Company’s operating results during the year the expenses are renounced to the share subscribers.

(j) Contributed Surplus

The fair value of certain stock options has been valued using the Black-Scholes option-pricing model. The fair value on the grant of these securities is added to contributed surplus. Upon exercise, the corresponding amount of contributed surplus related to the security is removed from contributed surplus and added to share capital.

TORCH RIVER RESOURCES LTD.
(An exploration stage company)
Notes to the Financial Statements
Years ended October 31, 2010 and 2009

3. Significant Accounting Policies – continued

(k) Asset Retirement Obligations

Asset retirement obligations are recognized when a legal obligation arises. This liability is recognized at the fair value of the asset retirement obligation. When the liability is initially recorded the Company capitalizes the cost by increasing the carrying amount of the related long-lived assets. Over time the liability is accreted to its present value each period, and the capitalized cost is amortized over the useful life of the related asset. Upon settlement of the liability, the Company either settles the obligation for its recorded amount or incurs a gain or a loss upon settlement.

It is reasonably possible that the Company's estimates of its ultimate reclamation and site restoration liability could change as result of changes in regulations or cost estimates. The effect of changes in estimated costs is recognized on a prospective basis. Currently, the Company's projects are under option and at an exploration stage, and accordingly, no such obligations have arisen.

(l) International Financial Reporting Standards

On February 13, 2008 the Accounting Standards Board ("AcSB") confirmed that in 2011 publically accountable enterprises will be required to report under International Reporting Standards ("IFRS"). This change will apply to fiscal years beginning on or after January 1, 2012. The transition date of January 1, 2011 will require restatement for comparative purposes of amounts reported by the Company for the year ended October 31, 2011. The Company is analyzing the significant IFRS-GAAP differences with respect to the Company's financial statements and related disclosures.

4. Equipment

Equipment consists of the following:

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	
			<u>2010</u>	<u>2009</u>
Computer equipment	\$ 10,247	10,247	-	\$ 1,571
Office equipment	5,259	5,259	-	844
Field equipment	<u>145,994</u>	<u>83,116</u>	<u>62,878</u>	<u>78,597</u>
	<u>\$ 161,500</u>	<u>98,622</u>	<u>62,878</u>	<u>\$ 81,012</u>

TORCH RIVER RESOURCES LTD.
(An exploration stage company)
Notes to the Financial Statements
Years ended October 31, 2010 and 2009

5. Mineral Properties and Rights and Deferred Exploration Costs

The Company has acquired certain mineral properties and rights, the costs of which are as follows:

Property	Property Costs	Deferred Exploration Costs	October 31, 2010	October 31, 2009
High Rock and Climpy Property	\$ 15,000	552,761	567,761	\$ 567,646
Red Bird Property	747,500	814,215	1,561,715	1,563,915
Grouse Mountain	33,435	27,128	60,563	51,853
Mount Copeland	329,978	608,471	938,449	743,077
Omineca	<u>11,120</u>	<u>20,773</u>	<u>31,893</u>	<u>-</u>
	<u>\$ 1,137,033</u>	<u>\$ 2,023,348</u>	<u>3,160,381</u>	<u>\$ 2,926,491</u>

High Rock and Climpy Property

The High Rock property and the Climpy property are gold prospects in northeast Manitoba located approximately 8 kilometers apart and cover approximately 1,544 hectares. The High Rock property consists of 9 mining claims covering 1,301 hectares and the Climpy property consists of one claim covering 243 hectares. Torch holds a 100% interest in all of the claims.

These claims do not include surface rights, but the use of such surface areas as may be required to carry out a mining operation can be obtained according to regulation. The claims have not been surveyed.

TORCH RIVER RESOURCES LTD.
(An exploration stage company)
Notes to the Financial Statements
Years ended October 31, 2010 and 2009

5. Mineral Properties and Rights (continued)

Red Bird Property

On July 8, 2005 the Company entered into an agreement with Red Bird Resources Ltd. ("Red Bird") whereby the Company will have an option to acquire a 100% interest in a molybdenum/copper property consisting of 840 hectares located in the Skeena Mining Division of the Central Coastal region of British Columbia.

The option is subject to a 2.5% net smelter return ("NSR") royalty which shall be retained by the Optionor on the Property.

At May 31, 2008 the Company earned a 25% undivided interest in the property. Red Bird retains the sole right to negotiate future deals with third parties on 100% of the Red Bird Property.

Grouse Mountain

In July of 2007 the Company entered into an agreement with William Pfaffenberger to purchase six mineral (silver) claims covering a total of 1,574.5054 hectares at Grouse Mountain, British Columbia for a total of \$33,060 in cash.

Mount Copeland

On February 12, 2008, the Company entered into an agreement whereby the Company will have the option to acquire a 100% interest in a molybdenum/copper property consisting of two mineral claims covering a total of 730.112 hectares located in British Columbia.

The option is subject to a 2.75% net smelter royalty ("NSR") which shall be retained by the Optionor on the property.

The interest will be earned by the Company paying the following:

- (a) \$15,000 upon signing the agreement (*paid*)
- (b) \$10,000 on or before the 28th of April 2008 and \$25,000 together with 200,000 common shares on or before the 30th day of June (*paid and issued*)
- (c) \$25,000 together with 200,000 common shares on or before the 28th day of April 2009 (*paid and issued*)
- (d) \$100,000 together with 1,480,000 common shares on or before the 28th day of April 2010 (*paid and issued*)

TORCH RIVER RESOURCES LTD.
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Notes to the Financial Statements
Years ended October 31, 2010 and 2009

5. Mineral Properties and Rights (continued)

On February 25, 2010 the Company amended the Mount Copeland option agreement. The original agreement required two payments of \$200,000 (before April 28th, 2010 and 2011 respectively) and the issuance of 900,000 common shares. The terms of the agreement were amended as shown in (d) above.

In addition to the foregoing, the Company is obligated to pay the following for work commitments:

- (a) \$100,000 during the summer and fall of the 2008 calendar year but, in any event, on or before November 1, 2008 (*expended*)
- (b) \$400,000 on or before November 1, 2009 (*expended*)

Omineca / Elden-Fort

In April, 2010, the Company announced that it had signed an option agreement (the "Omineca Option Agreement") with a private vendor under which Torch may earn a 100% interest in the 12 mineral claims comprising 1,611.5 hectares located in the Omineca Mining Division, Specularite Lake, B.C. Under the terms of the agreement, the Company shall earn up to a 100% interest in the Omineca Property by a one time payment to the vendor in the amount of \$10,000, spending up to \$250,000 on work programs over a period of forty-two (42) months and issuing up to an aggregate of two million shares to the vendor over the same time period.

Measurement Uncertainty

Apart from the Red Bird property impairment the Company has not experienced any property specific adverse impact to date on its operations. General mining market conditions have deteriorated, resulting in a decrease in the price of the Company's common shares, which in turn has created difficulty in raising sufficient equity capital to effectively explore or develop the Company's mineral property interests.

One or more of the issues described, or other factors beyond management's control, in future periods could adversely affect the Company's operations and could result in future potential or total write downs of the Company's recorded mineral property total interest of \$3,160,381 as at October 31, 2010. Such write-down amounts could be material.

6. Share Capital

The authorized share capital of the Company is:

- An unlimited number of voting common shares without par value.
- An unlimited number of non-voting first preferred shares.
- An unlimited number of non-voting second preferred shares.

TORCH RIVER RESOURCES LTD.
(An exploration stage company)
Notes to the Financial Statements
Years ended October 31, 2010 and 2009

6. Share Capital - continued

At October 31, 2010 the Company's issued share capital was as follows:

	2010		2009	
	Number of shares	\$ Amount	Number of shares	\$ Amount
<u>Common Shares</u>				
Balance, beginning of year	54,692,657	10,212,972	52,742,657	10,096,072
Private placement, March 12, 2010	2,100,000	105,000	1,000,000	50,000
Private placement, March 16, 2010	2,000,000	100,000		
Warrants exercised				
Options exercised				
Shares issued for property	1,480,000	59,200	950,000	87,500
Share issue costs		(4,164)		(6,100)
Flow-through shares (<i>Note 9</i>)		(14,700)		(14,500)
Balance, end of year	60,272,657	10,458,308	54,692,657	10,212,972

Private Placements

On March 12, 2010 the Company closed a private placement of 2,100,000 units at a price of \$0.05 per unit for gross proceeds of \$105,000. One half of the units, 1,050,000 consisted of one flow-through common share and one common share purchase warrant. The further 1,050,000 consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one Common share of the Company at an exercise price of \$0.10 for a period of twenty four months from the closing of the offering.

On March 16, 2010 the Company closed a private placement of 2,000,000 units at a price of \$0.05 per unit for gross proceeds of \$100,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one Common share of the Company at an exercise price of \$0.10 for a period of sixty months from the closing of the offering.

7. Share Capital Options and Warrants

Options

The Company has established a stock based compensation plan pursuant to which options to purchase common shares may be granted to certain officers, directors, and contractors of the Company as well as persons providing ongoing services to the Company. Exercise price of options equals at least the market price of the Company's stock on the date of grant. Stock options are exercisable on the day of grant and are for a two or five-year term in accordance with TSX Venture Exchange policy.

TORCH RIVER RESOURCES LTD.
(An exploration stage company)
Notes to the Financial Statements
Years ended October 31, 2010 and 2009

7. Share Capital Options and Warrants – continued

A summary of the status of the Company incentive stock option plan as at October 31, 2010 is as follows:

	2010		2009	
	Number of options	Weighted Average Exercise Price	Number of options	Weighted Average Exercise Price
Outstanding, beginning of year	3,970,000	\$0.24	4,724,000	\$0.26
Granted	1,830,000	\$0.10	-	-
Expired	(600,000)	\$0.25	(754,000)	\$0.32
Exercised	-	-	-	-
Outstanding, end of year	5,200,000	\$0.20	3,970,000	\$0.24

Options Granted

The Company has established a share option plan whereby options may be granted to directors, officers, contractors and consultants to purchase. Options granted have an exercise price of not less than the market price on the last trading day prior to the date of grant of the common shares on the stock exchange on which the shares are traded. Options granted vest upon grant and expire within two to five years from the date of the grant of options.

The Company accounted for stock compensation expense of options granted during the period using the following weighted average assumptions: as vested, risk-free interest rate of 2.13% (2009 – Nil), no expected forfeiture rate, dividend yield of 0.00% (2009 – Nil), volatility of 172% (2009 – Nil), and expected lives of five years. The Company has recorded \$49,959 (2009 – Nil) in stock compensation expense on 1,830,000 stock options that vested during the current year.

A total of 1,830,000 options were granted during the year to directors, consultants, and contractors. The weighted-average grant date fair value of stock options granted during the year was \$.0273.

A summary of the status of the company incentive stock option plan as at October 31, 2010 is as follows:

Number of Shares Under Option	Exercise Price	Expiry Date
120,000	\$0.18	August 25, 2011
100,000	\$0.135	January 17, 2012
500,000	\$0.16	March 7, 2012
1,000,000	\$0.38	May 15, 2012
670,000	\$0.32	June 6, 2012
320,000	\$0.18	February 17, 2013
280,000	\$0.16	May 29, 2013
380,000	\$0.12	July 29, 2013
<u>1,830,000</u>	<u>\$0.10</u>	<u>August 5, 2015</u>
<u>5,200,000</u>		

TORCH RIVER RESOURCES LTD.
(An exploration stage company)
Notes to the Financial Statements
Years ended October 31, 2010 and 2009

7. Share Capital Options and Warrants – continued

Warrants

The Company has completed private placements during the year. The funds were raised by the Company by attaching share purchase warrants to common shares sold and issuing share purchase warrants.

The following table summarizes recent changes in the number of warrants outstanding:

	2010		2009	
	Number of warrants	Weighted Average Exercise Price	Number of warrants	Weighted Average Exercise Price
Outstanding, beginning of year	3,368,363	\$0.27	8,805,026	\$0.42
Issued	4,100,000	\$0.10	500,000	\$0.15
Expired	(3,368,363)	\$0.27	(5,936,663)	\$0.49
Exercised	-	-	-	-
Outstanding, end of year	4,100,000	\$0.10	3,368,363	\$0.27

As at October 31, 2010 the following share purchase warrants were outstanding:

<u>Number of Warrants</u>	<u>Purchase Price</u>	<u>Expiry Date</u>
2,100,000	\$0.10	May 6, 2012
<u>2,000,000</u>	\$0.10	March 31, 2015
<u>4,100,000</u>		

8. Income Taxes

A reconciliation of income taxes at statutory rates is as follows:

	2010	2009
Loss before income taxes	\$ (262,494)	\$ (5,191,023)
Statutory income tax rate	28.00%	29.00%
Expected tax recovery	(73,498)	(1,505,397)
Non-deductible and permanent differences	15,103	1,416,805
Differences with future tax rates and other	(4,883)	(7,743)
Change in valuation allowance	48,578	81,835
Future income tax recovery	\$ (14,700)	\$ (14,500)

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8. Income Taxes - continued

The significant components of the Company's future tax assets are as follows:

	2010	2009
Capital losses carried forward	\$ 2,793,784	\$ 2,543,580
Capital losses expired during current year	(146,894)	(69,997)
Share issuance costs	3,331	6,100
Operating loss carried forward	211,839	320,201
Temporary difference in value for mineral property interests asset (liability)	3,000,129	3,052,629
Future income tax assets	5,862,189	5,852,513
Valuation allowance for future tax assets	(5,862,189)	(5,852,513)
Net future income tax assets	\$ -	\$ -

The realization of benefits related to these future potential tax deductions is uncertain and cannot be viewed as more likely than not. Accordingly, no net future income tax asset has been recognized for accounting purposes.

The Company has incurred expenditures on its mineral exploration properties which are identified as Canadian Exploration Expenses (CEE) and Canadian Development Expenses (CDE) for income tax purposes. The cumulative CEE and CDE expenditures and loss carryforwards may be used to reduce future years' taxable income earned by the Company.

In accordance with the adoption of accounting recommendations relating to the issuance of flow-through shares during the year (refer to *Note 3(i)*); the Company reduced \$14,700 from flow-through share proceeds assigned to share capital, and recognized as a future tax liability, an amount approximating the tax effect on the timing difference resulting from renouncing exploration expenditures using currently enacted tax rates and laws.

Concurrently the Company recognized \$14,700 as a future income tax recovery from the utilization of available tax losses and CEE of prior periods to offset the future tax liability recognized above. The Company has not previously recognized tax benefits relating to losses of prior periods as the criteria for recognition has not been met (*Note 3(f)*).

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8. Income Taxes - continued

The exploration and development expenses totaling \$6,160,510 can be carried forward indefinitely. The non-capital losses totaling \$2,858,729 are carried forward for tax purposes and are available to reduce taxable income of future years. These losses expire as follows:

Year	Non-Capital Losses
2010	106,428
2014	192,272
2015	315,110
2026	548,829
2027	563,645
2028	600,405
2029	320,201
2030	211,839
	<u>\$ 2,858,729</u>

9. Related Party Transactions

During the year the Company incurred charges from directors. The total related party transactions for the year by financial statement category are summarized as follows:

	2010	2009
Management fees	\$ 36,000	\$ 36,000
Travel and promotion	-	673
Stock compensation	32,760	-
General meetings	2,344	1,700
	<u>\$ 71,104</u>	<u>\$ 38,373</u>

Included in the travel and promotion and general meetings expenses are reimbursements made to directors for expenditures incurred on behalf of the company.

These transactions occurred during the normal course of operations and were measured at the exchange amount, that is the amount established and accepted by the parties.

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10. Contingency

A term deposit of \$46,000 has been pledged as security to the Scotia Bank for their irrevocable letter of credit in favor of the Province of British Columbia, Ministry of Energy and Mines.

11. Financial Instruments and Risk Management

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The disclosures in the notes to these financial statements describe how the categories of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognized.

Financial instruments recognized at fair value on the balance sheet are classified in fair value hierarchy levels as follows:

- Level 1: Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques based on inputs that are other than Level 1 quoted prices that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices).
- Level 3: Valuation techniques with unobservable market inputs (involves assumptions and estimates by management).

As at October 31, 2010, the classification of the financial instruments, as well as their carrying values and fair values, are shown in the table below:

	2010		2009	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Held-for-trading				
Cash and cash equivalents	\$ 55,418	\$ 55,418	\$ 130,251	\$ 130,251
Loans and receivables				
Accounts receivable	\$ 17,439	\$ 17,439	\$ 43,182	\$ 43,182
Other financial liabilities				
Accounts payable	\$ 102,066	\$ 102,066	\$ 35,381	\$ 35,381

The fair values of the Company's financial instruments measured at October 31, 2010, constitute Level 1 measurements for its cash and cash equivalents within the fair value hierarchy and Level 3 measurements for its loans and receivables and other financial liabilities defined under Canadian GAAP.

The Company recognized interest income during the year ended October 31, 2010, totaling \$366, which represents interest income from the Company's held-for-trading investments. This balance represents interest income from all sources.

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11. Financial Instruments and risk management - continued

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The Company's maximum exposure to credit risk at the balance sheet date under its financial instruments is summarized as follows:

	October 31, 2010
Accounts and other receivables-	
Currently due	\$ 17,439
Past due by 90 days or less, not impaired	--
Past due by greater than 90 days, not impaired	--
	<u>17,439</u>
Cash and cash equivalents	<u>55,418</u>
	<u>\$ 72,857</u>

All of the Company's cash and cash equivalents are held with major financial institutions in Canada, and management believes the exposure to credit risk with such institutions is not significant. The Company considers the risk of material loss to be significantly mitigated due to the financial strength of the major financial institutions where cash and term deposits are held. In the year ended October 31, 2010, no material provision has been recorded in respect of impaired receivables. The Company's maximum exposure to credit risk as at October 31, 2010, is the carrying value of its financial assets.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company has a planning and budgeting process in place by which it anticipates and determines the funds required to support normal operation requirements as well as the growth and development of its mineral property interests. The Company coordinates this planning and budgeting process with its financing activities through the capital management process described in *Note 12*, in normal circumstances. Due to the lack of liquidity, management has increased its focus on liquidity risk given the impact of the current economic climate on the availability of finance. Further information regarding liquidity risk is set out in *Note 1*.

The Company's financial liabilities are comprised of its accounts payable and accrued liabilities and amounts due to related parties, the contractual maturities of which at October 31, 2010, are summarized as follows:

	2010
Accounts payable and accrued liabilities with contractual maturities-	
Within 90 days or less	\$ 102,066
In later than 90 days, not later than one year	--
Due to related parties with contractual maturities	
Within 90 days or less	24,000
In later than 90 days, not later than one year	<u>--</u>

11. Financial Instruments and risk management – continued

Market risks

The significant market risks to which the Company is exposed include commodity price risk, interest rate risk and foreign exchange risk.

- Commodity price risk

The Company's ability to raise capital to fund exploration or development activities is subject to risk associated with fluctuations in the market prices of molybdenum and copper and the outlook for these metals, as the Company's ability to raise capital is affected by the commodity prices that the Company is exploring for on its mineral property interests. The Company does not have any hedging or other derivative contracts respecting its operations.

- Interest rate risk

The Company has no significant exposure at October 31, 2010, to interest rate risk through its financial instruments.

- Currency risk

The Company has no significant exposure at October 31, 2010 to currency risk as all cash and cash equivalents are held in Canadian funds.

12. Management of capital

The Company's objective in managing capital is to maintain adequate levels of funding to safeguard its ability to continue as a going concern in order to pursue the development of its mineral property interests.

The Company considers the items included in shareholders' equity to be capital. The Company relies on equity financing in order to fund future exploration and development and makes adjustments to the Company's capital structure based on financing needs, as well as in response to economic conditions and the risk characteristics of the underlying assets. Management makes adjustments to its capital structure through share issuances and the acquisition or disposition of assets.

As the Company is in the exploration stage it endeavours to manage its capital structure in a manner that provides sufficient funding for operational activities through funds primarily secured through equity capital obtained in private placements. There can be no assurances that the Company will be able to continue raising capital in this manner.

The Company does not currently have sufficient funds for operations and must rely on equity financing to continue exploration and development work and to meet its administrative overhead costs for the coming year (see *Note 1* and *Note 13*).

The Company facilitates the management of capital through the preparation of annual expenditure budgets and cash forecasts that are updated as necessary. The Company does not have any externally imposed capital requirements.

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13. Subsequent events

On November 19, 2010, the Company closed a private placement of 1,250,000 units at a price of \$0.08 per unit for gross proceeds of \$100,000. Each unit consisted of one common share and one-half common share purchase warrant. Each warrant entitles the holder to purchase one-half Common share of the Company at an exercise price of \$0.12 for a period of twenty four months from the closing of the offering.

On January 4, 2011, the Company granted an aggregate of 800,000 stock options to purchase common shares pursuant to its stock option plan to a total of four officers and directors of the Company. The stock options vest immediately and were granted at an exercise price of \$0.10 per common share. The stock options expire on January 4, 2016.

On January 24, 2011, the Company closed a private placement of 1,000,000 units at a price of \$0.075 per unit for gross proceeds of \$75,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one Common share of the Company at an exercise price of \$0.10 for a period of twenty four months from the closing of the offering.

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SCHEDULE OF DEFERRED EXPLORATION COSTS
AS AT OCTOBER 31, 2010 AND 2009

Exploration expenses	High Rock and Climpy	Red Bird	Grouse Mountain	Mount Copeland	Omineca	Deferred exploration costs October 31, 2010
Incurring and expensed to October 31, 2009	\$ 552,646	\$ 816,415	\$ 18,418	\$ 574,077	\$ -	\$ 1,961,556
Incurring during the current year:						
Assays and analysis	115	-	553	8,529	4,098	13,295
Geological and geophysical	-	-	8,822	28,490	18,261	55,573
Travel and accommodation	-	-	-	-	-	-
Grants and other recoveries	-	(2,200)	(665)	(2,625)	(1,586)	(7,076)
Impairment of mineral property interests	-	-	-	-	-	-
Deferred exploration costs for the year ended October 31, 2010	\$ 552,761	\$ 814,215	\$ 27,128	\$ 608,471	\$ 20,773	\$ 2,023,348

TORCH RIVER RESOURCES LTD.
 (An exploration stage company)
 SCHEDULE OF DEFERRED EXPLORATION COSTS
 AS AT OCTOBER 31, 2010 AND 2009

	High Rock and Climpy	Red Bird	Grouse Mountain	Mount Copeland	Omineca	Deferred exploration costs October 31, 2009
Exploration expenses						
Incurring and expensed to October 31, 2008	\$ 552,646	\$ 3,225,613	\$ 10,400	\$ 553,790	\$ -	\$ 4,342,449
Incurring during the current year:						
Assays and analysis	-	10,234	-	-	-	10,234
Geological and geophysical	-	27,950	9,873	24,982	-	62,805
Travel and accommodation	-	9,411	-	-	-	9,411
Grants and other recoveries	-	(8,943)	(1,855)	-	-	(10,798)
Impairment of mineral property interests	-	(2,447,850)	-	(4,695)	-	(2,452,545)
Deferred exploration costs for the year ended October 31, 2009	\$ 552,646	\$ 816,415	\$ 18,418	\$ 574,077	\$ -	\$ 1,961,556